

**MARTIN PUBLIC SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Martin Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Martin Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2008, on our consideration of Martin Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xii and 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Martin Public Schools' basic financial statements. The additional information on pages 27 to 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mayer, Costeniser & Ellis, P.C.*

August 19, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Martin Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

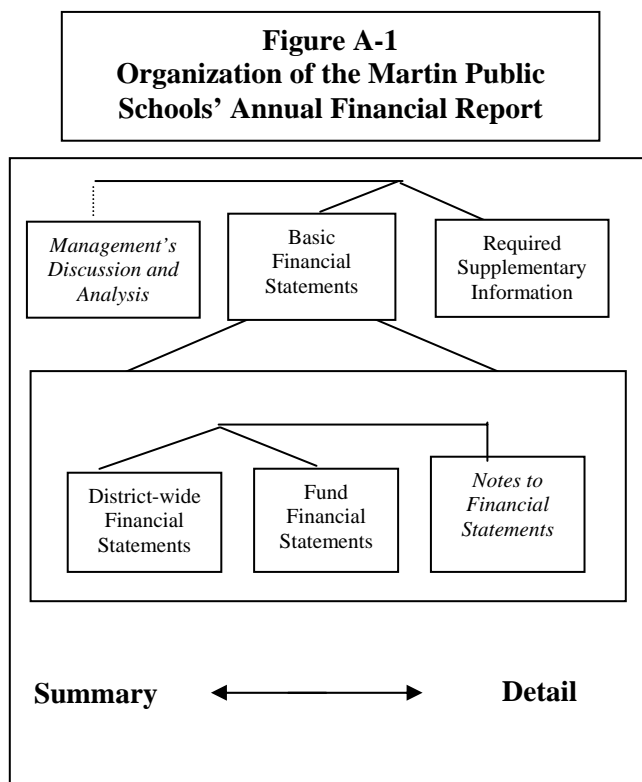
### **FINANCIAL HIGHLIGHTS**

- Revenues decreased slightly .5 percent to \$6.56 million.
- Expenditures increased 1.6 percent to \$6.2 million due to payroll related increases and increases in energy costs.
- General Fund revenues were \$5.45 million, \$68,655 more than general fund expenditures and transfers.
- The District's fall student count increased by 6.5 students to 654.5 pupils.
- The total taxable value of property in the District increased 6.2 percent. The five-year average for taxable value increases is 5.9 percent.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<b>Figure A-2</b> <b>Major Features of District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Martins' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net assets - The District's combined net assets were more on June 30, 2008 than the year before, increasing from \$2,175,139 to \$2,521,573.



<b>Table A-3</b> <b>Martin Public Schools</b> <b>Net Assets</b>		
	2008	2007
Current assets	\$ 2,459,878	\$ 2,229,231
Capital assets	7,162,763	7,430,683
Total assets	9,622,641	9,659,914
Long-term debt outstanding	5,278,632	5,793,159
Other liabilities	1,822,436	1,691,616
Total liabilities	7,101,068	7,484,775
Net assets:		
Invested in capital assets, net of related debt	1,425,010	1,233,077
Restricted for debt service	225,300	176,978
Unrestricted	871,263	765,084
Total net assets	\$ 2,521,573	\$ 2,175,139

<b>Table A-4</b> <b>Changes in Martin Public Schools' Net Assets</b>		
	2008	2007
Revenues:		
Program revenues:		
Charges for services	\$ 198,213	\$ 213,114
Federal and state categorical grants	697,925	747,501
General revenues:		
Property taxes	1,170,247	1,112,485
Investment	44,850	44,740
State aid - unrestricted	4,132,218	4,158,632
ISD	147,328	129,399
Other	165,101	177,856
Total revenues	6,555,882	6,583,727
Expenses:		
Instruction	3,123,584	3,020,239
Support services	2,144,042	2,109,065
Food services	263,099	253,193
Athletics	200,980	213,699
Interest on long-term debt	255,800	288,907
Unallocated depreciation	221,943	223,741
Total expenses	6,209,448	6,108,844
Changes in net assets	\$ 346,434	\$ 474,883

### **District Governmental Activities**

- Proposal A established the student foundation grant concept, and has increased that amount from \$4,636 per student in 1995 to \$7,204 per student in 2008.
- Declining enrollment has been ongoing for the past 10 years. In the fiscal year 1999, state aid membership was 772.5 and in eight years has decreased by 15.3% to 654.5.

### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balance of \$1,181,766 in 2008 compared to \$1,061,534 in 2007.

For fiscal year 2008, food service revenues were \$6,750 more than the yearly expenditures, leaving a fund balance of \$49,931. Indirect costs were not charged to the food service fund. Athletic expenditures were more than two times more than revenues. The general fund subsidized the athletic fund which enabled this fund to reach its expected balance of matching revenues to expenditures.

#### **General Fund and Budget Highlights**

During the 2008 fiscal year the original District budget was amended three times to reflect changes which affected the District.

The initial amendment took place in November. Prior to that, there were no significant budget changes.

Final amendments took place in June to reflect the most up to date revenues and expenditures. Revenue was to be \$60,288 more than expenditures and transfers. Final results showed that revenues came in slightly higher \$2,876 and expenditures and transfers came in less \$5,491. The net result was a change in fund balance of \$68,655 increasing the fund balance to \$854,394.

General fund expenditures came within .7% of the budgeted amount. Overall the difference between the final District amended budget and the end of year figures amounted to more than 1%. In the final analysis, when compared to the Board adopted budget of June 2007, revenues were higher by more than 1% and expenditures were within by 1% of budgeted amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's capital assets are as follows:

<b>Table A-5</b> <b>Martin Public Schools' Capital Assets</b>				
	<b>2008</b>		<b>Net book value</b>	<b>Net book value 2007</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>		
Land	\$ 25,000	\$ -	\$ 25,000	\$ 25,000
Buildings and improvements	9,422,097	2,847,414	6,574,683	6,775,935
Technology	412,284	380,817	31,467	48,575
Furniture and fixtures	503,654	234,044	269,610	291,247
Machinery and equipment	280,625	155,534	125,091	136,124
Transportation equipment	454,635	398,192	56,443	69,002
<b>Total</b>	<b>\$ 11,098,295</b>	<b>\$ 4,016,001</b>	<b>\$ 7,082,294</b>	<b>\$ 7,345,883</b>

### LONG-TERM DEBT

At year-end the District had \$5,771,882 long-term debt outstanding as shown in Table A-6. Depreciation expense for the year ended June 30, 2008 was \$269,392. More detailed information is available in Note 7 to the financial statements.

The District paid down its debt by \$465,284.

<b>Table A-6</b> <b>Martin Public Schools</b> <b>Outstanding Long-Term Debt</b>		
	<b>2008</b>	<b>2007</b>
General obligation bonds	\$ 5,644,060	\$ 6,083,628
Durant - limited obligation bonds	28,623	28,623
Notes payable	65,071	85,355
Compensated absences	34,128	67,596
	<b>\$ 5,771,882</b>	<b>\$ 6,265,202</b>

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of a few existing circumstances that could significantly affect its financial health in the future:

- The 2008-2009 foundation allowance has not been finalized by the State of Michigan, and the weak state economy could require pro-rations in the state aid. The foundation allowance represents 86 percent of total District revenue.
- Student enrollment is uncertain.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Martin Public Schools, 1619 University Street, Martin, Michigan 49070.

## **BASIC FINANCIAL STATEMENTS**

**MARTIN PUBLIC SCHOOLS  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<b>Governmental activities</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash	\$ 1,040,459
Investments- restricted for debt payments	555,429
Receivables:	
Accounts receivable	4,682
Interest receivable	6,404
Due from other governmental units	830,237
Inventories	7,667
Prepaid expenditures	15,000
	<hr/>
<b>TOTAL CURRENT ASSETS</b>	2,459,878
	<hr/>
<b>NONCURRENT ASSETS:</b>	
Deferred charges, net of amortization	80,469
Capital assets	11,098,295
Less accumulated depreciation	(4,016,001)
	<hr/>
<b>TOTAL NONCURRENT ASSETS</b>	7,162,763
	<hr/>
<b>TOTAL ASSETS</b>	\$ 9,622,641
	<hr/> <hr/>

See notes to financial statements.

	<b>Governmental activities</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 40,486
Note payable	625,000
Accrued salaries and related items	475,373
Accrued interest	72,791
Deferred revenue	115,537
Current portion of long-term obligations	489,836
Current portion of termination benefits	3,413
	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,822,436</b>
	<hr/>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	5,247,917
Noncurrent portion of compensated absences and termination benefits	30,715
	<hr/>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>5,278,632</b>
	<hr/>
<b>TOTAL LIABILITIES</b>	<b>7,101,068</b>
	<hr/>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	1,425,010
Restricted for debt service	225,300
Unrestricted	871,263
	<hr/>
<b>TOTAL NET ASSETS</b>	<b>2,521,573</b>
	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 9,622,641</b>
	<hr/> <hr/>

**MARTIN PUBLIC SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense)
				revenue and changes in net assets
Governmental activities:				
Instruction	\$3,123,584	\$ -	\$ 468,700	\$ (2,654,884)
Support services	2,144,042	-	75,041	(2,069,001)
Food services	263,099	112,627	154,184	3,712
Athletics	200,980	85,586	-	(115,394)
Interest on long-term debt	255,800	-	-	(255,800)
Unallocated depreciation	221,943	-	-	(221,943)
Total governmental activities	<u>\$6,209,448</u>	<u>\$ 198,213</u>	<u>\$ 697,925</u>	<u>(5,313,310)</u>
General revenues:				
Property taxes, levied for general purposes				429,253
Property taxes, levied for debt service				740,994
Investment earnings				44,850
State sources				4,132,218
Intermediate sources				147,328
Other				<u>165,101</u>
Total general revenues				<u>5,659,744</u>
CHANGE IN NET ASSETS				346,434
NET ASSETS, beginning of year				<u>2,175,139</u>
NET ASSETS, end of year				<u>\$ 2,521,573</u>



MARTIN PUBLIC SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General Fund	1998 debt fund	2001 debt fund	2006 debt fund	Other nonmajor governmental funds	Total governmental funds
ASSETS						
ASSETS:						
Cash and cash equivalents	\$ 767,171	\$ 68,812	\$ 57,170	\$ 127,956	\$ 19,350	\$ 1,040,459
Investments- restricted for debt payments	555,429	-	-	-	-	555,429
Receivables:						
Accounts receivable	3,773	-	-	-	909	4,682
Interest	6,404	-	-	-	-	6,404
Due from other governmental units	830,237	-	-	-	-	830,237
Due from other funds	9,018	40,143	6,878	-	13,649	69,688
Inventories	-	-	-	-	7,667	7,667
Prepaid expenditures	-	-	-	-	15,000	15,000
TOTAL ASSETS	<u>\$ 2,172,032</u>	<u>\$ 108,955</u>	<u>\$ 64,048</u>	<u>\$ 127,956</u>	<u>\$ 56,575</u>	<u>\$ 2,529,566</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 34,908	\$ -	\$ -	\$ -	\$ 5,578	\$ 40,486
Note payable	625,000				-	625,000
Accrued interest payable	21,716	-	-	-	-	21,716
Accrued salaries and related items	475,373	-	-	-	-	475,373
Due to other funds	45,104	4,492	16,752	3,340	-	69,688
Deferred revenue	115,537	-	-	-	-	115,537
TOTAL LIABILITIES	<u>1,317,638</u>	<u>4,492</u>	<u>16,752</u>	<u>3,340</u>	<u>5,578</u>	<u>1,347,800</u>

	General Fund	1998 debt fund	2001 debt fund	2006 debt fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:						
Reserved for inventories	\$ -	\$ -	\$ -	\$ -	\$ 7,667	\$ 7,667
Reserved for prepaid expenditures	-	-	-	-	15,000	15,000
Reserved for debt service	-	104,463	47,296	124,616	-	276,375
Designated for subsequent expenditures	242,115	-	-	-	-	242,115
Unreserved, undesignated	612,279	-	-	-	28,330	640,609
TOTAL FUND BALANCES	<u>854,394</u>	<u>104,463</u>	<u>47,296</u>	<u>124,616</u>	<u>50,997</u>	<u>1,181,766</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,172,032</u>	<u>\$ 108,955</u>	<u>\$ 64,048</u>	<u>\$ 127,956</u>	<u>\$ 56,575</u>	<u>\$ 2,529,566</u>
Total governmental fund balances						\$ 1,181,766
Amounts reported for governmental activities in the statement of net assets are different because:						
Value of amortized bond issuance costs					\$ 90,934	
Accumulated amortization					(10,465)	
						80,469
Capital assets used in governmental activities are not financial resources and are not reported in the funds						
The cost of the capital assets is					11,098,295	
Accumulated depreciation is					(4,016,001)	
						7,082,294
Long-term liabilities are not due and payable in the current period and are not reported in the funds:						
Bonds payable						(5,838,693)
Compensated absences and termination benefits						(34,128)
Accrued interest is not included as a liability in government funds, it is recorded when paid						(51,075)
Deferred loss on bond refunding						122,193
Deferred bond premium						(21,253)
Net assets of governmental activities						<u>\$ 2,521,573</u>

**MARTIN PUBLIC SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2008**

					Other nonmajor governmental funds	Total governmental funds
	General Fund	1998 debt fund	2001 debt fund	2006 debt fund		
<b>REVENUES:</b>						
Local sources:						
Property taxes	\$ 430,003	\$ 310,852	\$ 229,432	\$ 200,710	\$ -	\$ 1,170,997
Investment earnings	35,361	2,407	2,356	3,364	1,362	44,850
Food sales, athletics, and community service	-	-	-	-	198,213	198,213
Other	163,020	-	-	-	2,081	165,101
Total local sources	628,384	313,259	231,788	204,074	201,656	1,579,161
State sources	4,392,033	-	-	-	18,167	4,410,200
Federal sources	283,926	-	-	-	136,017	419,943
Incoming transfers and other	147,328	-	-	-	-	147,328
Total revenues	5,451,671	313,259	231,788	204,074	355,840	6,556,632
<b>EXPENDITURES:</b>						
Current:						
Instruction	3,109,151	-	-	-	-	3,109,151
Supporting services	2,169,039	-	-	-	-	2,169,039
Food service activities	-	-	-	-	263,099	263,099
Athletic activities	-	-	-	-	192,761	192,761
Debt service:						
Principal repayment	-	240,000	190,000	15,000	-	445,000
Interest	-	47,416	34,727	175,207	-	257,350
Total expenditures	5,278,190	287,416	224,727	190,207	455,860	6,436,400
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	\$ 173,481	\$ 25,843	\$ 7,061	\$ 13,867	\$ (100,020)	\$ 120,232
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers from other funds	-	-	-	-	104,826	104,826
Operating transfers to other funds	(104,826)	-	-	-	-	(104,826)
Total other financing sources (uses)	(104,826)	-	-	-	104,826	-
<b>NET CHANGE IN FUND BALANCES</b>	68,655	25,843	7,061	13,867	4,806	120,232
<b>FUND BALANCES:</b>						
Beginning of year	785,739	78,620	40,235	110,749	46,191	1,061,534
End of year	\$ 854,394	\$ 104,463	\$ 47,296	\$ 124,616	\$ 50,997	\$ 1,181,766

**MARTIN PUBLIC SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008**

<b>Net change in fund balances total governmental funds</b>	<b>\$ 120,232</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(269,392)
Capital outlay	5,803
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	52,625
Accrued interest payable, end of the year	(51,075)
Repayments of principal on long-term debt is an expenditure in the governmental funds, not in the statement of activities (where it is a reduction of liabilities)	
Payments on debt	465,284
Amortization of bond issuance costs	(4,330)
Amortization of deferred amount on bond refunding	(6,575)
Amortization of bond premium	1,144
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred revenue, beginning of the year	(750)
Deferred revenue, end of the year	-
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and termination benefits, beginning of the year	67,596
Accrued compensated absences and termination benefits, end of the year	(34,128)
<b>Change in net assets of governmental activities</b>	<b>\$ 346,434</b>

**MARTIN PUBLIC SCHOOLS**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**JUNE 30, 2008**

	<u>Agency fund</u>
<b>ASSETS:</b>	
Cash	<u><u>\$    48,377</u></u>
 <b>LIABILITIES:</b>	
Due to student and other groups	<u><u>\$    48,377</u></u>

## **MARTIN PUBLIC SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Martin Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **A. Reporting Entity**

The Martin Public Schools (the "District") is governed by the Martin Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined by GASB Statements No. 14 and 39.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *1998, 2001 and 2006 debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Concluded)**

**Fiduciary Funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.



**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	18.00
Debt service fund - Homestead and non-homestead	6.00

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000.

6. Compensated absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK**

As of June 30, 2008, the District had the following investments.

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
Guaranteed Investment Contract (GIC)	<u>\$ 555,429</u>	<u>0.0137</u>	A 1+	<u>100%</u>
Portfolio weighted average maturity		<u>0.0137</u>		

1 day maturity equals 0.0027, one year equals 1.00

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)**

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$907,409 of the District's bank balance of \$1,107,409 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value is \$1,088,927 of which includes \$301,614 of certificates of deposit and \$48,377 for the fiduciary funds.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the note payable disclosed in Note 6.

The Investment Agreement, dated as of August 20, 2007, by and among Wells Fargo Bank, N.A., as the Depository on behalf of both the participating Michigan School Districts, the Michigan Municipal Bond Authority, and Fifth Third Bank, as Provider.

The net proceeds from the sale of the 2007 Series B-1 Notes were loaned by the Authority to Michigan School Districts. Such loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 102% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity. The investment agreement invested in only certificates of deposit for the duration of the investment agreement and the certificates of deposit are scheduled to mature on August 20, 2008.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 5.020% (simple interest actual days elapsed over a 365-day year).

**MARTIN PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)**

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$48,377	\$ 1,088,836
Investments	<u>555,429</u>
	<u><u>\$ 1,644,265</u></u>

The above amounts are reported in the financial statements as follows:

Cash - Agency fund	\$ 48,377
Cash - district-wide	1,040,459
Investments - district-wide	<u>555,429</u>
	<u><u>\$ 1,644,265</u></u>

**NOTE 4 - RECEIVABLES**

Receivables from governmental units at June 30, 2008 consist of the following:

Other governmental units:	
State aid	\$ 800,381
Other	<u>29,856</u>
	<u><u>\$ 830,237</u></u>

**MARTIN PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Total capital assets not being depreciated	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Capital assets, being depreciated:				
Buildings and improvements	9,422,097	-	-	9,422,097
Technology	619,766	2,939	210,421	412,284
Furniture and fixtures	500,790	2,864	-	503,654
Machinery and equipment	280,625	-	-	280,625
Transportation equipment	454,635	-	-	454,635
Total capital assets, being depreciated	<u>11,277,913</u>	<u>5,803</u>	<u>210,421</u>	<u>11,073,295</u>
Accumulated depreciation:				
Buildings and improvements	2,646,162	201,252	-	2,847,414
Technology	571,191	20,047	210,421	380,817
Furniture and fixtures	209,543	24,501	-	234,044
Machinery and equipment	144,501	11,033	-	155,534
Transportation equipment	385,633	12,559	-	398,192
Total accumulated depreciation	<u>3,957,030</u>	<u>269,392</u>	<u>210,421</u>	<u>4,016,001</u>
Net capital assets being depreciated	<u>7,320,883</u>	<u>(263,589)</u>	<u>-</u>	<u>7,057,294</u>
Net governmental capital assets	<u><u>\$ 7,345,883</u></u>	<u><u>\$ (263,589)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,082,294</u></u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$269,392. The District allocated depreciation to the various activities as follows:

Athletics	\$ 8,219
Support services	39,230
Unassigned	<u>221,943</u>
	<u><u>\$ 269,392</u></u>

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - NOTE PAYABLE**

At June 30, 2008, the District has a note payable outstanding of \$625,000. The note has an interest rate of 3.68% and matures August 2008. The District has \$555,429 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the \$625,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2007	Additions	Payments	Balance June 30, 2008
<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>	<u>\$ 625,000</u>

**NOTE 7 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. At June 30, 2008 the District has no general obligation bonds outstanding. Long-term obligations currently outstanding are as follows:

1998 refunding bonds due in annual installements of \$250,000 to \$260,000 through May 1, 2011 with interest from 4.45% to 4.75%	\$ 770,000
2001 school building and site bonds due in annual installments of \$200,000 to \$225,000 through May 1, 2011 with interest from 4.20% to 4.30%	640,000
2006 refunding bonds due in annual installments of \$15,000 to \$270,000 through May 1, 2027 with interest from 3.25% to 4.0%	4,335,000
Limited obligation (Durant) bond, due in installments of \$3,887 to \$11,718 through May 15, 2013, with interest of 4.76%. Certain future state aid payments have been pledged as security.	28,623
Less: deferred amount on bond refunding	(122,193)
Plus: premium on 2006 bond issuance (net)	<u>21,253</u>
Total bonded debt	5,672,683
Note payable due in annual installments of \$7,906 through April 2011. Collateralized by software. Note is non-interest bearing.	23,718
Note payable due in annual installments of \$15,284 on February 1 including interest at 5.34% through February 2011. Note is collateralized by bus.	41,352
Compensated absences and severance benefits	<u>34,128</u>
Total general long-term debt	<u><u>\$ 5,771,881</u></u>



**MARTIN PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Continued)**

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The annual requirements to amortize long-term debt outstanding as of June 30, 2008, including interest of \$2,110,499, are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 489,836	\$ 241,299	\$ 731,135
2010	515,732	219,889	735,621
2011	526,725	157,195	683,920
2012	276,719	176,213	452,932
2013	269,681	162,843	432,524
2014-2018	1,330,000	654,100	1,984,100
2019-2023	1,350,000	386,100	1,736,100
2023-2027	1,080,000	112,860	1,192,860
Total	5,838,693	<u>\$ 2,110,499</u>	<u>\$ 7,949,192</u>
Less deferred amount on 2006 refunding	(122,193)		
Plus premium on 2006 refunding	21,253		
Accumulated compensated balances	<u>34,128</u>		
	<u>\$ 5,771,881</u>		

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2008, approximately \$4,145,000 of bonds outstanding are considered defeased.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Concluded)**

At June 30, 2008, \$276,375 is available in the debt service funds to service the general obligation debt.

The following is a summary of long-term obligations for the District for the year ended June 30, 2008:

	General obligations bonds	Limited obligation Durant bonds	Nonbonded debt	Compensated absences and voluntary termination benefits	Total
Balance, July 1, 2007	\$ 6,083,628	\$ 28,623	\$ 85,355	\$ 67,596	\$ 6,265,202
Deletions	439,568	-	20,285	33,468	493,321
Balance, June 30, 2008	5,644,060	28,623	65,070	34,128	5,771,881
Less current portion	465,000	3,887	20,949	3,413	493,249
Total due after one year	<u>\$ 5,179,060</u>	<u>\$ 24,736</u>	<u>\$ 44,121</u>	<u>\$ 30,715</u>	<u>\$ 5,278,632</u>

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2008 are as follows:

Receivable fund		Payable fund	
General	\$ 9,018	General	\$ 45,104
Special revenue	13,649		
Debt service 1998	40,143	Debt service 1998	4,492
Debt service 2001	6,878	Debt service 2001	16,752
Debt service 2006	-	Debt service 2006	3,340
	<u>\$ 69,688</u>		<u>\$ 69,688</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 was 17.74 % through September 30, 2007 and 16.72% effective October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$505,000, \$510,000, and \$466,000, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement or post-employment benefits which is the responsibility of the State of Michigan.

**MARTIN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District purchases commercial insurance to cover any losses that may result from the above described activities. No settlements have occurred in excess of coverage for June 30, 2008.

**NOTE 11 - TRANSFERS**

The general fund transferred \$104,826 to the athletic fund during the current fiscal year to subsidize operations.

**NOTE 12 - SUBSEQUENT EVENTS**

The District has approved borrowing \$575,000 for fiscal year 2008 to replace the note payable as described in Note 6.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MARTIN PUBLIC SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2008**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local sources	\$ 636,603	\$ 618,197	\$ 628,384	\$ 10,187
State sources	4,211,792	4,400,417	4,392,033	(8,384)
Federal sources	263,893	283,753	283,926	173
Incoming transfers and other	46,000	146,428	147,328	900
Total revenues	<u>5,158,288</u>	<u>5,448,795</u>	<u>5,451,671</u>	<u>2,876</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	2,394,840	2,449,381	2,434,455	14,926
Added needs	<u>655,925</u>	<u>666,840</u>	<u>674,696</u>	<u>(7,856)</u>
Total instruction	<u>3,050,765</u>	<u>3,116,221</u>	<u>3,109,151</u>	<u>7,070</u>
Supporting services:				
Pupil	352,799	377,750	377,898	(148)
Instructional staff	65,393	66,536	65,654	882
General administration	411,506	404,265	408,544	(4,279)
School administration	346,263	448,302	445,377	2,925
Business	71,899	61,525	69,273	(7,748)
Operation/maintenance	643,794	518,184	518,102	82
Pupil transportation	218,464	184,351	184,067	284
Other supporting services	<u>57,035</u>	<u>106,373</u>	<u>100,124</u>	<u>6,249</u>
Total supporting services	<u>2,167,153</u>	<u>2,167,286</u>	<u>2,169,039</u>	<u>(1,753)</u>
Total expenditures	<u>5,217,918</u>	<u>5,283,507</u>	<u>5,278,190</u>	<u>5,317</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(59,630)</u>	<u>165,288</u>	<u>173,481</u>	<u>8,193</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers to other funds	<u>(116,700)</u>	<u>(105,000)</u>	<u>(104,826)</u>	<u>174</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (176,330)</u>	<u>\$ 60,288</u>	<u>68,655</u>	<u>\$ 8,367</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>785,739</u>	
End of year			<u>\$ 854,394</u>	

## **ADDITIONAL INFORMATION**

**MARTIN PUBLIC SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008**

<b>ASSETS</b>	<b>Food Service</b>	<b>Athletic</b>	<b>Totals</b>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 19,193	\$ 157	\$ 19,350
Accounts receivable	-	909	909
Due from other funds	13,649	-	13,649
Prepaid expenditures	15,000	-	15,000
Inventories	7,667	-	7,667
<b>TOTAL ASSETS</b>	<b>\$ 55,509</b>	<b>\$ 1,066</b>	<b>\$ 56,575</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 5,578	\$ -	\$ 5,578
<b>TOTAL LIABILITIES</b>	<b>5,578</b>	<b>-</b>	<b>5,578</b>
<b>FUND BALANCES:</b>			
Reserved for inventories	7,667	-	7,667
Reserved for prepaid expenditures	15,000	-	15,000
Unreserved/undesignated	27,264	1,066	28,330
<b>TOTAL FUND BALANCES</b>	<b>49,931</b>	<b>1,066</b>	<b>50,997</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 55,509</b>	<b>\$ 1,066</b>	<b>\$ 56,575</b>



**MARTIN PUBLIC SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2008**

	<b>Food Service</b>	<b>Athletic</b>	<b>Totals</b>
<b>REVENUES:</b>			
Sales	\$ 112,627	\$ -	\$ 112,627
State aid	18,167	-	18,167
Federal aid	136,017	-	136,017
Admissions	-	85,586	85,586
Investment earnings	957	405	1,362
Other	2,081	-	2,081
Total revenues	269,849	85,991	355,840
<b>EXPENDITURES:</b>			
Salaries	66,467	81,250	147,717
Benefits	16,261	15,576	31,837
Purchased services	45,320	-	45,320
Supplies and materials	20,098	69,761	89,859
Food costs	114,953	-	114,953
Capital outlay	-	486	486
Other expenses	-	25,688	25,688
Total expenditures	263,099	192,761	455,860
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	6,750	(106,770)	(100,020)
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers to other funds	-	104,826	104,826
Total other financing sources (uses)	-	104,826	104,826
<b>NET CHANGE IN FUND BALANCES</b>	6,750	(1,944)	4,806
<b>FUND BALANCES:</b>			
Beginning of year	43,181	3,010	46,191
End of year	\$ 49,931	\$ 1,066	\$ 50,997

**MARTIN PUBLIC SCHOOLS**  
**AGENCY FUND**  
**STUDENT ACTIVITIES FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**YEAR ENDED JUNE 30, 2008**

	<b>Balance</b> <b>7/1/07</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance</b> <b>6/30/08</b>
Band	\$ (219)	\$ 6,451	\$ 5,962	\$ 270
Science Department F/R	559	175	165	569
Advanced Biology	208	-	-	208
Drama	1,058	4,016	3,194	1,880
Spanish club	1,081	-	1,081	-
Class of 2007	1	-	1	-
Class of 2008	756	2,018	2,774	-
Class of 2009	92	5,086	4,508	670
Class of 2010	340	509	-	849
Class of 2011	-	493	134	359
Junior High Senate	44	1,710	1,156	598
Student Senate	2,594	3,176	3,832	1,938
Shop	(2,439)	8,175	11,714	(5,978)
Revolving textbook	7,646	605	-	8,251
Louise Knobloch	1,000	-	1,000	-
Yearbook Clipper	3,032	14,997	16,590	1,439
Clipper Log	87	-	87	-
Junior High Society	-	-	-	-
National Honor Society	80	-	607	(527)
Pals	486	147	298	335
Building fund - High School	12,241	12,326	6,464	18,103
Target Education Fund	1,053	-	1,053	-
Mini-Society - Careers	(57)	1,148	342	749
Middle school end of year	71	-	-	71
Field trips	-	6,843	6,762	81
Popcorn machine	428	-	-	428
Media Center	20	526	506	40
Concessions	1,268	6,495	7,763	-
Robert D. Brandon Elementary	14,068	15,761	11,785	18,044
	<u>\$ 45,498</u>	<u>\$ 90,657</u>	<u>\$ 87,778</u>	<u>\$ 48,377</u>

**MARTIN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$2,655,000 Bond Issued January 1, 1998

Principal due May 1,	Interest due		June 30,	Amount annually
	May 1	November 1		
\$ 250,000	\$ 18,097	\$ 18,097	2009	\$ 286,194
260,000	12,285	12,285	2010	284,570
260,000	6,175	6,175	2011	272,350
<u>\$ 770,000</u>	<u>\$ 36,557</u>	<u>\$ 36,557</u>		<u>\$ 843,114</u>

Above bonds dated January 1, 1998 were issued for the purpose of constructing and remodeling school facilities. Interest varies from 4.45% to 4.75%.

**MARTIN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$5,590,000 Bond Issued August 1, 2001

Principal due May 1,	Interest due		June 30,	Amount annually
	May 1	November 1		
\$ 200,000	\$ 13,553	\$ 13,553	2009	\$ 227,106
215,000	9,352	9,352	2010	233,704
225,000	4,838	4,838	2011	234,676
<u>\$ 640,000</u>	<u>\$ 27,743</u>	<u>\$ 27,743</u>		<u>\$ 695,486</u>

Above bonds dated August 1, 2001 were issued for the purpose of constructing and remodeling school facilities. Interest varies from 4.2 % to 4.3 %.

**MARTIN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$4,350,000 Bond Issued February 2, 2006

Principal due May 1,	Interest due		June 30,	Amount annually
	May 1	November 1		
\$ 15,000	\$ 87,370	\$ 87,369	2009	\$ 189,739
15,000	87,126	87,126	2010	189,252
15,000	66,872	66,872	2011	148,744
265,000	86,610	86,610	2012	438,220
265,000	81,310	81,310	2013	427,620
265,000	76,010	76,010	2014	417,020
265,000	70,710	70,710	2015	406,420
265,000	65,410	65,410	2016	395,820
265,000	60,110	60,110	2017	385,220
270,000	54,810	54,810	2018	379,620
270,000	49,410	49,410	2019	368,820
270,000	44,010	44,010	2020	358,020
270,000	38,610	38,610	2021	347,220
270,000	33,210	33,210	2022	336,420
270,000	27,810	27,810	2023	325,620
270,000	22,410	22,410	2024	314,820
270,000	17,010	17,010	2025	304,020
270,000	11,340	11,340	2026	292,680
270,000	5,670	5,670	2027	281,340
<u>\$ 4,335,000</u>	<u>\$ 985,818</u>	<u>\$ 985,817</u>		<u>\$ 6,306,635</u>

Above bonds dated February 2, 2006 were issued for the purpose of advance refunding a portion the 2001 bond issue. Interest varies from 3.25% to 4.20%

**MARTIN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

\$69,835 School Improvement Bonds (Durant) - Limited Obligation Bonds

Principal due May 1,	Interest payment	May 15,	Amount
\$ 3,887	\$ 1,018	2009	\$ 4,905
4,072	833	2010	4,905
4,265	638	2011	4,903
11,718	2,993	2012	14,711
4,681	223	2013	4,904
<u>\$ 28,623</u>	<u>\$ 5,705</u>		<u>\$ 34,328</u>

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**MARTIN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

Note payable for software purchased through AAESA

Principal due April 1,	June 30,
\$ 7,906	2009
7,906	2010
7,906	2011
<u>\$ 23,718</u>	

Software was purchased through the AAESA in which Martin Public Schools uses the software provided by the ISD. The note payable is non-interest bearing due in yearly installment on April 1.

**MARTIN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2008**

2006 Bus Loan

Principal due February 1	Interest due February 1	June 30,	Amount
\$ 13,043	\$ 2,242	2009	\$ 15,285
13,755	1,530	2010	15,285
14,554	731	2011	15,285
<u>\$ 41,352</u>	<u>\$ 4,503</u>		<u>\$ 45,855</u>

Note payable for purchase of bus in 2006.





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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Martin Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools as of and for the year ended June 30, 2008, which collectively comprise Martin Public Schools' basic financial statements and have issued our report thereon dated August 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Martin Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Martin Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Martin Public Schools' in a separate letter dated August 19, 2008.

This report is intended solely for the information and use of the board of education, management, others within the entity and the U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer, Costeniser & Ellis, P.C.*

August 19, 2008



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August 19, 2008

To the Board of Education  
Martin Public Schools

In planning and performing our audit of the financial statements of Martin Public Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Martin Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 19, 2008 on the financial statements of Martin Public Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

**Month-end procedures checklist**

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the District's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided District personnel with a month-end procedures checklist which can be customized further for your District. The purpose of this checklist is to provide District personnel with a centralized list of required month-end procedures, as well as, a place to document who completed the procedure and who reviewed the procedure performed.

We recommend the District consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures and clearly document when and by whom the procedure was performed and reviewed.

**Uninsured bank deposits**

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Districts may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the District's investment policy to ensure it continues to satisfy the District's goals.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Martin Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mamie Costeniser & Ellis, P.C.*

August 19, 2008



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August 19, 2008

To the Board of Directors  
Martin Public Schools

We have audited the financial statements of Martin Public Schools for the year ended June 30, 2008, and have issued our report thereon dated August 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Martin Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Martin Public Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 25, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Martin Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimated lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 19, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Martin Public Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Martin Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the finance committee, Board of Directors and management of Martin Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

August 19, 2008